

July 28, 2011

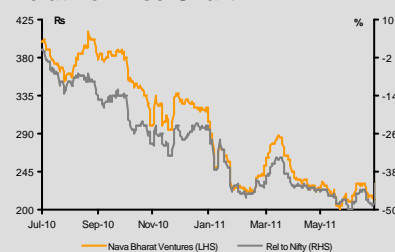
Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs237	Rs290
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,488
Sensex	18,210

Price Performance

(%)	1M	3M	6M	12M
Absolute	12	(6)	(25)	(41)
Rel. to Nifty	13	(0)	(23)	(42)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Power
Bloomberg	NBVL@IN
Equity Capital (Rs mn)	153
Face Value(Rs)	2
No of shares o/s (mn)	76
52 Week H/L	420/195
Market Cap (Rs bn/USD mn)	18/408
Daily Avg Volume (No of sh)	6061
Daily Avg Turnover (US\$m)	0.0

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	45.7	45.6	45.5
FII/NRI	24.4	24.8	23.1
Institutions	2.5	2.6	3.8
Private Corp	2.2	2.2	2.3
Public	25.2	25.0	25.3

Source: Capitaline

Amit Golchha

amit.golchha@emkayglobal.com

+91 22 6624 2408

- Q112 APAT of Rs528mn (down 51% yoy) is below est. on lower MAT credit. Highlights - merchant tariff Rs4.0/unit, PLF 84% (lower demand), cost of generation Rs2.3/unit
- Contract with TISCO to start in 2Q. Under the deal (1) NBVL to supply 35000MT ferro chrome for 3 yrs, (2) 17MW captive power supply at Rs3.9/unit & (3) fixed margin of Rs1000/MT
- Zambia coal trading to start from Sep11 - 1mnMT in FY14E. 64MW COD still pending - expected in 2Q. Indonesian investment safe, NBVL to get 20% offtake also.
- Review earnings post concall. Reiterate NBVL is better placed in terms of fuel security (washery rejects and Zambia hedge) and offtake (natural hedge - ferro alloys). Accumulate

Lower MAT credit impacts performance, otherwise in line

Q1FY12 APAT of Rs528mn, down 51% yoy is below estimates due to lower MAT credit of Rs65mn versus our estimate of Rs150mn. Revenues of Rs2.35bn, down 19% yoy are below estimate of Rs2.7bn - lower PLF in power (84% vs est of 90%) and captive transfer price (Rs2.87/unit vs est of Rs3.5/unit). For the same reason, EBITDA margins fell by 1660bps to 24.5% vs estimate of 27.3%. However, lower EBITDA was offset by lower depreciation, tax and higher other income. During Q1FY12 - (1) merchant tariff (excluding Gridco supply) stood at Rs3.97/unit (down 27% yoy) and (2) cost of generation stood at Rs2.25/unit, up 2% yoy. Q1FY12 EPS stands at Rs6.1/share.

Ferro chrome deal with TISCO to operationalize in 2Q

We understand that contract with TISCO to operationalize in 2Q. Under the deal NBVL would supply ferro chrome qty of 35000MT/per year for 3 yrs. The captive power requirement for producing 35000MT ferro chrome is about 17MW which would be billed at Rs3.9/unit & over and above this, NBVL will be getting a fixed margin of Rs1000/MT of ferro chrome. This is likely to provide decent upside to profits as NBVL made about Rs120mn losses in its ferro chrome plant in FY11. We now assume Rs95mn profit in FY12E. As per mgmt guidance, we now assume 64MW COD by July 2011.

64MW COD in 2Q, Zambian coal trading from Sep11

The 64MW plant is still awaiting forest clearance and COD is expected in 2Q (we have factored starting 2Q). Further, Zambian coal trading remains on schedule and is likely to start by Sep-oct11 and to reach 1mn MT by FY14E.

Maintain Accumulate on cheap valuation, natural hedge & fuel security

To review our earnings of Rs38.5/share and Rs45.6/share in FY12E/13E, post concall on 2nd August. However, we reiterate that deal with TISCO is start of natural hedge play with ferro alloys being a natural hedge for power offtake. Also we remain positive on its primary dependence on washery rejects for new plants vs most of the other companies being dependent on coal linkages from coal India. Stock is trading at 5.0x FY13E EPS, 0.7x FY13E book. Maintain Accumulate with PT of Rs290/Share.

Consolidated Financial Snapshot

Rs Mn

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	11,794	5,582	47.3	4,968	65.1	-8.4	36.0	3.5	2.7	1.1
FY11P	10,905	3,070	28.2	3,385	44.3	-32.0	19.6	5.2	5.8	1.0
FY12E	13,782	3,683	26.7	3,386	38.5	-13.1	16.8	5.9	8.9	0.9
FY13E	14,707	4,261	29.0	4,013	45.6	18.5	16.1	5.0	9.3	0.7

Quarterly Results

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Revenue	2,898	2,880	2,466	2,681	2,347	-19.0	-12.5
Expenditure	-1,706	-1,877	-1,909	-1,968	-1,771	3.8	-10.0
<i>as % of sales</i>	<i>-58.9%</i>	<i>-65.2%</i>	<i>-77.4%</i>	<i>-73.4%</i>	<i>-75.5%</i>		
Consumption of RM	-1,183	-1,581	-928	-649	-722	-39.0	11.2
<i>as % of sales</i>	<i>-40.8%</i>	<i>-54.9%</i>	<i>-37.6%</i>	<i>-24.2%</i>	<i>-30.8%</i>		
Power and Fuel	0	0	-583	-668	-585	-100.0	
<i>as % of sales</i>	<i>0.0%</i>	<i>0.0%</i>	<i>-23.7%</i>	<i>-24.9%</i>	<i>-24.9%</i>		
Other Mfg Expenses	0	0	0	0	0		
<i>as % of sales</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>		
Employee Cost	-136	-134	-123	-181	-134	-1.5	-26.0
<i>as % of sales</i>	<i>-4.7%</i>	<i>-4.6%</i>	<i>-5.0%</i>	<i>-6.8%</i>	<i>-5.7%</i>		
Other expenditure	-386	-163	-274	-469	-330	-14.5	-29.7
<i>as % of sales</i>	<i>-13.3%</i>	<i>-5.7%</i>	<i>-11.1%</i>	<i>-17.5%</i>	<i>-14.1%</i>		
EBITDA	1,192	1,003	558	713	576	-51.7	-19.2
Depreciation	-103	-103	-111	-142	-109	6.2	-23.4
EBIT	1,090	900	447	571	467	-57.1	-18.2
Other Income	75	72	80	127	161	114.8	26.7
Interest	-77	-77	-38	-45	-39	-43.3	-12.6
PBT	1,088	896	489	653	589	-45.9	-9.9
Total Tax	-3	-6	-7	-2	-61	1754.7	2686.7
Adjusted PAT	1085	889	483	651	528	-51.3	-18.9
Extra ordinary items	-31	-42	10	10	-13		
Reported PAT	1054	847	493	661	515	-51.1	-22.1
EPS	12.5	10.2	5.6	7.5	6.1	-51.3	-18.9

Margins (%)						(bps)	(bps)
EBIDTA	39.9	33.0	22.6	26.6	24.5	-1536	-206
EBIT	36.4	29.4	18.1	21.3	19.9	-1646	-140
EBT	36.3	29.3	19.9	24.4	24.4	-1193	0
PAT	36.4	28.9	19.2	24.2	22.5	-1387	-168
Effective Tax rate	-0.2	-0.5	1.3	0.8	10.0	1013	917

Q4FY11 Concall Recap

- 64MW unit was ready for commissioning. Company expected to receive the clearance in June and the plant was expected to be operational from August11 onwards.
- Update on Indonesian mine investment - management mentioned that there they were in talks with some investors and regulators in which they expected full refund of the investments made (USD 3mn). Also, they expected to get the earlier decided coal offtake from mines.
- Zambia - (1) new coal handling and processing plant to start by Sep2011 and coal trading to start by Oct2011, (2) expected high grade coal trading of 0.2mn MT in FY12E, 0.6mn MT in FY13E, (3) cash cost of production at USD45/MT-USD50/MT of high grade coal (6200Kcal) which includes 2.5MT of low grade coal as a by product, (4) financial Closure and PPA for the Zambia power plant by Q2FY12, (5) NBVL's Singapore subs has extended shareholder loan of USD 26mn which would be converted into equity.
- Total capex for the Zambian power project is \$750mn (\$700mn for the power project and \$50mn towards coal mine revamping costs). This is significantly higher than earlier estimates (USD 440mn). Also this is on the higher side (Rs105mn/MW) compared to setting up a plant in India mainly on account of (1) Zambia being a land locked country the cost of transporting equipment is high and (2) Cost of cement and labor is higher in Zambia. NBVL expects a PPA price of 10-11cents/unit, which will ensure about 20% ROE.
- Fuel for operational plants (1) 70% coal linkage, ~10% e-auction and ~20% washery rejects and (2) for 64MW and 150MW Paloncha is 70-80% washery rejects and 20-30% e-auction or linkage coal.
- 120MW hydro power plant in Laos is at clearance stage. Estimated capital cost is around Rs12bn. NBVL is in process of getting all the requisite approvals after which DPR would be prepared.

Consolidated Financials**Income Statement**

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Net Sales	11,794	10,905	13,782	14,707
Growth (%)	-7.0	-7.5	26.4	6.7
Expenditure	6,212	7,835	10,099	10,445
Fuel Cost	2,961	3,297	2,771	3,030
O&M Cost	3,251	4,538	7,328	7,415
SG&A Expenses	0	0	0	0
Other Expenses	0	0	0	0
EBITDA	5,582	3,070	3,683	4,261
Growth (%)	22.4	23.4	19.6	15.7
EBITDA margin (%)	47.3	28.2	26.7	29.0
Depreciation	444	471	565	605
EBIT	5,139	2,599	3,118	3,656
EBIT margin (%)	43.6	23.8	22.6	24.9
Other Income	246	1,372	1,010	1,273
Interest expenses	306	383	525	568
PBT	5,079	3,589	3,603	4,361
Tax	111	203	217	348
Effective tax rate (%)	2.2	5.7	6.0	8.0
Adjusted PAT	4,968	3,385	3,386	4,013
Growth (%)	-8.3	-31.9	0.0	18.5
Net Margin (%)	42.1	31.0	24.6	27.3
E/O items	20	-72	0	0
Reported PAT	4,989	3,313	3,386	4,013
(Profit)/loss from JV's/Ass/MI	0	0	0	0
PAT after MI	4,989	3,313	3,386	4,013
Growth (%)	-8.3	-31.9	0.0	18.5

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
PBT (Ex-Other income)	4,853	2,148	2,593	3,088
Depreciation	444	471	565	605
Interest Provided	306	383	525	568
Other Non-Cash items	56	-1,287	-1,401	0
Chg in working cap	428	1,004	202	-99
Tax paid	-111	-200	-217	-348
Operating Cashflow	5,975	2,519	2,267	3,815
Capital expenditure	-1,260	-4,909	-17,575	-12,579
Free Cash Flow	4,715	-2,389	-15,309	-8,765
Other income	246	1,372	1,010	1,273
Investments	-603	-1,023	0	0
Investing Cashflow	-1,617	-4,560	-16,565	-11,306
Equity Capital Raised	-3	1,373	1,399	0
Loans Taken / (Repaid)	-365	3,022	12,818	8,210
Interest Paid	-306	-383	-525	-568
Dividend paid (incl tax)	-803	-459	0	0
Income from investments				
Others	0	-1,006	1,058	1,058
Financing Cashflow	-1,477	2,548	14,749	8,699
Net chg in cash	2,880	507	450	1,208
Opening cash position	3,343	6,222	6,730	7,180
Closing cash position	6,223	6,730	7,180	8,387

Note – we have taken MAT credit of Rs500mn in FY12/13E

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Equity share capital	153	153	176	176
Reserves & surplus	15,809	17,744	22,164	27,235
Net worth	15,962	17,897	22,340	27,411
Secured Loans	3,938	6,960	19,778	27,987
Unsecured Loans	0	0	0	0
Loan Funds	3,938	6,960	19,778	27,987
Net deferred tax liability	202	206	206	206
Total Liabilities	20,103	25,063	42,324	55,604
Gross Block	9,017	12,257	14,557	14,557
Less: Depreciation	-2,465	-2,967	-3,030	-3,635
Net block	6,551	9,290	11,527	10,922
Capital work in progress	1,416	3,116	17,889	30,468
Investment	963	1,986	1,986	1,986
Current Assets	13,747	14,059	14,272	15,600
Inventories	2,806	2,974	2,623	2,655
Sundry debtors	1,452	763	877	966
Cash & bank balance	6,222	6,730	7,180	8,387
Loans & advances	3,266	3,287	3,287	3,287
Other current assets	0	305	305	305
Current lia & Prov	2,576	3,385	3,350	3,371
Current liabilities	2,576	3,385	3,350	3,371
Provisions	0	0	0	0
Net current assets	11,171	10,674	10,922	12,229
Misc. exp	2	0	0	0
Total Assets	20,103	25,063	42,324	55,604

Key Ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
Profitability (%)				
EBITDA Margin	47.3	28.2	26.7	29.0
Net Margin	42.1	31.0	24.6	27.3
ROCE	28.3	11.5	9.3	7.5
ROE	36.0	19.6	16.8	16.1
RoIC	39.5	16.8	11.8	8.6
Per Share Data (Rs)				
EPS	65.1	44.3	38.5	45.6
CEPS	70.9	50.5	44.9	52.5
BVPS	209.1	234.2	253.9	311.6
DPS	9.0	6.1	5.3	6.3
Valuations (x)				
PER	3.5	5.2	5.9	5.0
P/CEPS	3.2	4.5	5.1	4.3
P/BV	1.1	1.0	0.9	0.7
EV / Sales	1.3	1.6	2.4	2.7
EV / EBITDA	2.7	5.8	8.9	9.3
Dividend Yield (%)	3.9	2.7	2.3	2.8
Gearing Ratio (x)				
Net Debt/ Equity	-0.1	0.0	0.6	0.7
Net Debt/EBIDTA	-0.4	0.1	3.4	4.6
Working Cap Cycle (days)	166	104	93	80

Recommendation History: Nava Bharat Ventures – NBVL IN

Date	Reports	Reco	CMP	Target
01/06/2011	Nava Bharat Ventures Q4FY11 Result Update	Accumulate	234	290
02/02/2011	Nava Bharat Ventures Q3FY11 Result Update	Accumulate	280	328
25/01/2011	Power Sector Report; Too many ends to tie			

Recent Research Reports

Date	Reports	Reco	CMP	Target
25/07/2011	NTPC Q1FY12 Result Update	Buy	184	204
21/07/2011	JSW Energy Q1FY12 Result Update	Reduce	71	74
21/07/2011	Bharat Bijlee Q1FY12 Result Update	Accumulate	850	884
20/07/2011	Sintex Industries Q1FY12 Result Update	Buy	185	225

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

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